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SUBJECT: SLOVAKIA: 2010 INVESTMENT CLIMATE STATEMENT

REF: 09 STATE 124006

¶1. Following is Embassy Bratislava's submission for the 2010 Investment Climate Statement, in response to tasking reftel:

2010 INVESTMENT CLIMATE STATEMENT

OVERVIEW

Following 6.4 percent GDP growth in 2008, Slovakia's economy has not been spared by the global recession and is expected to drop 5.7 percent (est.) in 2009. The current account deficit, including the cost of the second pension pillar, reached 5.0% in
¶2008. The general government deficit for 2009 is forecast at 5.4%, and government debt was 27.6% of GDP in 2008, in comparison with 29.4% of GDP in 2007; debt is expected to rise to over 40% of GDP by 2012. Comprehensive structural reforms adopted by the Slovak government in the first several years of this decade led the World Bank to name the country the world's top reformer in improving the investment climate in its "Doing Business in 2005" report. Slovakia's relatively low-cost yet skilled labor force, low taxes, liberal labor code and favorable geographic location have helped it become one of Europe's favorite investment markets. The Financial Times described Slovakia as the "Detroit of the East," and Forbes magazine called it the world's next Hong Kong or Ireland. The election of the left-leaning Smer (or Direction) party in 2006 has slowed reform momentum and led to some less business-friendly changes in labor, pension, and social insurance legislation. The Business Alliance of Slovakia, for instance, has reported a continuous downward trend in the quality of the business environment since 2006, citing a slow and ineffective legal system, non-transparent and unequal treatment in the legal system, increasing bureaucratic burden on companies and an ineffective political system. The government's commitment to adopting the euro in 2009, however, tempered proposals to overhaul the previous reforms and contributed to stable macroeconomic policies. Slovakia joined the European Monetary Union on January 1, 2009.

Slovakia is a member of the European Union (EU), the North Atlantic Treaty Organization (NATO), and the Organization for Economic Cooperation and Development (OECD), and it holds investment grade ratings from all three major rating agencies. The Wall Street Journal and Heritage Foundation's 2009 Index of Economic Freedom ranked Slovakia 36 of the 179 countries examined, a slight drop from the previous year, and 20th out of 43 countries in the European region. In the Global Competitiveness Report 2008-9, compiled by the World Economic Forum, Slovakia places 47 of 133 on the global competitiveness index, a one-place drop from the previous year. The F.A. Hayek Foundation, in a ranking developed with the Swiss Institute for Management Development (IMD), reported a fall of three positions to 33 in 2009 in a ranking of 55 countries evaluated according to the competitiveness of their economies.

In 2008, the cumulative FDI inflow to Slovakia increased to EUR 26.8 billion since 1998 with the inflow of FDI falling to approximately EUR 952 million in 2008 and EUR 65.2 million in 1Q2009 (National Bank of Slovakia est.). The largest foreign investments in 2008 were Czech Republic, Cyprus, Poland, Austria, France, South Korea, Germany and Italy.

A 2008 survey by the U.S. Embassy showed U.S. investments in Slovakia at approximately USD 4 billion for current and future commitments, which would make the U.S. roughly the third largest source of FDI. Official Government of Slovakia (GOS) statistics differ because some U.S. investments are credited to third countries, depending on corporate structure.

OPENNESS TO FOREIGN INVESTMENT

In the late 1990s, Slovakia had only one-sixth as much cumulative foreign direct investment (FDI) per capita as Hungary or the Czech Republic. Today, the flow of FDI per capita is comparable to that in neighboring countries. Based on the United Nations Conference on Trade and Development's (UNCTAD) World Investment Report 2009, by the end of the 2008 Slovakia's foreign direct investment flow reached USD 3.414 billion, in comparison with Poland (USD 16.533 billion), Czech republic (USD 10.731 billion) and Hungary (USD 6.514 million).

Ernst & Young's "European Attractiveness Survey 2009" ranked Slovakia as 12th in Europe in terms of job creation (a drop from the 8th position last year), with 3,660 jobs created by foreign investors in 2008, which represents a 57 percent decrease in comparison with the previous year. Slovakia experienced a sharp decline in FDI projects, mainly in the automotive and

electrochemical industries, and did not get into the top 15 European countries based on number of FDI projects in 2008, according to the survey.

The biggest 2009 contracts included Kia's expansion in Zilina, extending its automotive production capacity and investing into a new motor manufacturing line worth EUR 400 million. New investment plans had already been announced in 2008 and will increase Kia Slovakia's production capacity to 300,000 new cars per year. Kia also added another product line, the Hyundai IX35 SUV, to its current two product lines of Kia Cee'd and Kia Sportage.

Another major foreign investment decision was the expansion of Volkswagen's manufacturing plant in Bratislava with the new Up! subcompact line, increasing its total investment by additional EUR 308 million. Volkswagen received state aid totaling EUR 14 million in the form of a tax holiday. The new manufacturing line will create 1,500 new jobs and will increase the total production capacity of the VW plant in Slovakia to 400,000 cars per year. Volkswagen Slovakia decreased the number of produced cars to 188,000 cars in 2008 from 250,000 cars produced in 2007, due to the global recession's heavy impact on the luxury segment of the automotive market.

In December 2009, a EUR 191.3 million new investment from Taiwan-based LCD panel screen producer AU Optronics Corporation was announced, creating approximately 1,300 direct and 2,000 indirect jobs and receiving state aid of EUR 38.2 million in cash subsidies and tax relief.

US Molex and ON Semiconductor decided to leave Slovakia in 2009 as a result of global restructuring. Due to the recession, Sony postponed its plans to expand its LCD TV factory in Nitra (an investment reported to be worth EUR 240 million).

As of January 2008, the GOS enacted a new Act on Investment Assistance, which provides varying levels of aid to domestic and foreign investors for the period 2007-2013, depending on a number of factors including level of unemployment in the

proposed region of investment, business sector, size of investment, and the type of employment that will be provided. Assistance levels range from 10 percent to 50 percent of eligible costs. The rules also lay out what types of aid are available, the responsibilities and decision making processes of the state institutions, and the maximum amount of aid available to an individual investment. In general, the new rules were structured to encourage investments into less-developed regions with high unemployment, into more sophisticated production, and into research and development. There are four priority areas identified in the new rules: industrial production, technology centers, centers of strategic services, and tourism.

The 2008 rules provide structure and transparency to a process that has been much more ad hoc and opaque, but the interpretation of new rules continues to be unclear and is a source for potential non-transparency. The legislation, which was prepared by the Ministry of Economy, brings Slovak law into compliance with the new and stricter European Commission (EC) guidelines and its new "aid map" for 2007-2013. The EC has approved a regional aid map for each member state that identifies the regions and sectors eligible for aid and the maximum aid amounts allowed. Under the new legislation, the Slovak government does not have to seek EC approval for each individual investment project up to roughly USD 4.4 million, which should dramatically speed up the application process.

The major changes in Slovakia include a reduction in the ceiling of support that can be issued in western Slovakia and the districts of the city of Bratislava. Several forms of state aid are available: discounted prices for land, financial subsidies for acquiring tangible and intangible assets related to the investment, tax credits, and grants for the creation of new jobs. For the first time domestic investors have become eligible to apply for state aid as well. A provisional amendment to the Act on Investment Assistance, valid from April 2009 to December 2010, re-defines some conditions for granting state aid (mostly decreasing direct cash subsidies for machinery and land and extending job creation subsidies to regions with lower than average unemployment).

Regional governments can also provide support to companies in various forms, including infrastructure and training. In addition, Slovakia currently offers one of the most advantageous tax environments for corporations among all OECD and EU states. In 2004, the country imposed a flat income tax rate of 19 percent, both for corporations and individuals, and eliminated virtually all exemptions and deductions. In addition, the GOS eliminated withholding taxes on dividends, thus permitting

foreign firms to pay parent companies without being taxed.

Slovakia approved state aid totaling 66.3 million EUR for 6 new investment projects (4 foreign companies and 2 domestic companies) between July and December 2009, according to the government Report on the Status and Successes of Foreign Direct Investments in Slovakia. The new projects are expected to create 2,718 new jobs in regions of Nitra, Trencin, Kosice and Presov, and the total investment value should reach EUR 336 million by ¶2013. The most-used forms of state aid were direct subsidies for building infrastructure (58%), tax relief (39%) and cash subsidies for new jobs created (2 %).
The Slovak government investment agency SARIO reported foreign direct investment deals worth EUR 538 million in 2008, less than half the EUR 1.28 billion worth of FDI contracts signed in 2007. SARIO said the 34 investment deals arranged in 2008 would create 4,624 new jobs.
The Industrial Park Law (193/2001 Z.z.) helps municipalities develop special industrial zones through funding assistance from the Slovak government. The Slovak government can fund up to 85 percent of the overall cost related to the purchase of land and development of infrastructure in an industrial park. In regions with an unemployment rate exceeding 10 percent, state co-financing could cover as much as 95 percent of all eligible costs (in practical terms, this exemption applies to virtually

all regions of Slovakia except the westernmost). The Slovak Investment and Trade Development Agency (SARIO) currently has registered 39 industrial parks that are capable of housing investors within a short period of time. The SARIO website (www.sario.sk) offers more detailed information.

The government in Slovakia halted all large-scale privatization plans with the election of the current government in 2006, and a number of re-nationalizations of infrastructure have also been announced in the last year. The current law on strategic privatization, which was enacted by the previous government, permits complete privatization of most businesses and allows for 49 percent foreign ownership (with management control) of the natural gas distributor, the electric power producer, electricity distributors, and an oil pipeline. All of these privatizations have been completed. The state must still retain ownership of railroad right of ways, postal services, water supplies (but not suppliers) and forestry companies. However, the government of Prime Minister Robert Fico, which came to power in mid 2006, is very reluctant to proceed with further sales of state assets. It cancelled a privatization tender for the rail cargo company, reversed the privatization process for the Bratislava airport, stopped privatizations of regional heating companies, imposed a ban on further privatization of designated "strategic" companies, and bought back the privatized share of the oil pipeline operation.   Conversion and Transfer Policies

Slovakia entered the European Monetary Union and adopted the euro as its currency as of January 1, 2009, with the conversion rate set at 30.126 Slovak crowns (SKK) to 1 euro. It was possible to exchange Slovak crowns for euros through 2009.

Foreign exchange operations are governed by the Foreign Exchange Act (312/2004 Z.z.), and one can easily convert or transfer funds associated with an investment. As a member of the OECD, Slovakia meets all international standards for conversion and transfer policy. In 2003, an amendment to the Foreign Exchange Act liberalized operations with financial derivatives and abolished the limit on the export and import of banknotes and coins (domestic and foreign currency). Since January 2004, an amendment to the Foreign Exchange Act authorized Slovak residents to open accounts abroad and eliminated the obligation to transfer financial assets acquired abroad into Slovakia. Non-residents may hold foreign exchange accounts. No permission is needed to issue foreign securities in Slovakia, and Slovaks are free to trade, buy and sell foreign securities. There are very few controls on capital transactions, except for rules governing commercial banking and credit institutions, which must abide by existing banking laws.

EXPROPRIATION AND COMPENSATION

In 2004, Slovakia witnessed one expropriation case, widely considered an anomaly. The GOS began an expropriation process for land from local farmers to use for the site of Hyundai/Kia's car plant - the country's largest foreign greenfield investment ever. An independent panel established the market value of the land and the GOS paid this amount; some landowners appealed. The constitution, as well as the commercial and civil codes, permits expropriation only in exceptional cases of public interest, and compensation must be provided. The law also provides for an appeal process. In December 2007, the GOS approved a new expropriation or eminent domain law that allows the state to

construct highways on private property without prior consent of the landowner if the construction parcel is considered "strategic" for Slovak interests. Owners would be compensated by the state after the fact. The legislation is aimed at speeding up highway construction projects to finish the connection between Bratislava and Kosice, and it has been challenged by several civil society groups. Members of Parliament filed a complaint against this law in the Constitutional Court in 2008, but no decision has yet been handed down; in the meantime, the law remains in force.

DISPUTE SETTLEMENT

On December 29, 2004, the International Center for Settlement of Investment Disputes (ICSID) ruled in favor of the Czech bank Ceskoslovenska Obchodna Banka (CSOB) in its claim against Slovakia and ordered the GOS to pay the bank SKK 24.7 billion (USD 800 million). CSOB's claim dated back to 1993, when it provided a loan to a special state agency set up to assume CSOB's bad debts as part of a division of assets between Slovakia and the Czech Republic as the successor states of the former Czechoslovakia.

A law passed in October 2007, with effect in 2008, banned health insurance companies from paying dividends to their shareholders and severely limited allowable overhead costs. In response, one of the shareholders of the health insurance company Dovera, Health Insurance Companies of Eastern Europe, and Eureko, BV, a shareholder of Union zdravotna poistovna, have filed for international arbitration in the amount of nearly EUR 500 million.

There have been no other major investment disputes in Slovakia in recent years. Slovakia is a contracting state of the ICSID, the World Bank's Commercial Arbitration Tribunal (established under the 1966 Washington Convention), and is a member of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitrage Awards.

The Slovak judicial system is comprised of general courts and the Constitutional Court. General courts decide in civil and criminal matters and also review the lawfulness of decisions by administrative bodies. District courts (54) are the first instance courts, and regional courts (8) hear cases as appeals courts. The Supreme Court of the Slovak Republic is the final review court. A special court for corruption, organized crime and crimes of highest public officials was created in 2005, though it was abolished by a judgment of the Constitutional Court in 2009 and replaced with another, similar court that has a somewhat more limited scope. Judges of general courts are nominated by the Judicial Council of the Slovak Republic and are appointed for life by the President. They may only be removed for cause. The Constitutional Court of the Slovak Republic is an independent judicial body that decides on the conformity of legal norms, adjudicates conflicts of authority between government agencies, hears complaints, including complaints of individuals regarding their human rights, and interprets the Constitution or constitutional statutes. Judges of the Constitutional Court are appointed for 12-year terms by the President from a list of candidates selected by the parliament.

The legal system generally enforces property and contractual rights, but decisions may take years, thus limiting the utility of the courts for dispute resolution. Slovak courts recognize and enforce foreign judgments, subject to the same delays. Although generally the commercial code appears to be applied consistently, the business community considers corruption and political influence to be significant problems in the legal system. Slovakia accepts binding international arbitration, and the Slovak Chamber of Commerce and Industry has a court of arbitration for alternative dispute resolution; nearly all cases involve disputes between Slovak and foreign parties. Slovak domestic companies generally do not make use of arbitration clauses in contracts.

The current law on bankruptcy and restructuring entered into effect on January 1, 2006. Its main aim was to shorten the duration of cases and to increase the volume of revenues recovered. The law allows companies to undergo court-protected restructuring and individuals to discharge their debts through bankruptcy. According to the International Monetary Fund, the act overhauls ineffective bankruptcy procedures by speeding up their processing, improving creditor rights, reducing discretion by bankruptcy judges, and randomizing the allocation of cases to judges to reduce the potential for corruption. A new law on trustees entered into effect on July 1, 2005. Its main goal was to increase requirements for professional skills of trustees.

Trustees must now graduate from accredited institutions or

private companies, receive a license from the Ministry of Justice, and will be subject to continued monitoring by the ministry and bankruptcy courts. Still, investors have complained of unpredictable and corrupt bankruptcy and restructuring decisions, despite the new laws.

Slovakia recognizes secured interests in immovable property, normally secured by physical possession of, or a conveyed title to, the property in question until the loan is repaid. There is a recognized procedure for foreclosures, which specifies how evictions are handled, debts are repaid and any remaining funds are returned to the titleholder. Since 2003, Slovakia has one of the most advanced frameworks in Europe for registering security interests in moveable property.

PERFORMANCE REQUIREMENTS AND INCENTIVES

Slovakia has no formal performance requirements for establishing, maintaining, or expanding foreign investments. However, such requirements may be included as conditions of specific negotiations for property involved in large-scale privatization by direct sale or public auction. (See the "Openness to Foreign Investment" section for details on incentives). There are no obstacles for foreign entities to participate in GOS financed and/or subsidized research and development programs and to receive equal treatment as domestic entities. There are no domestic ownership requirements for telecommunications and broadcast licenses.

The current law regarding defense offsets has been in effect since January 1, 2008. The law outlines the basic principles and responsibilities of the supplier and the relevant state institutions (Ministry of Defense, Ministry of Economy, interdepartmental offset committee) for offset programs in Slovakia, based on similar legislation in other EU and NATO countries. The law requires offsets of 20 percent direct or 30 percent for a combination indirect and direct offsets of the value for defense contracts worth over EUR 6 million. The offsets can be reduced by a set formula if applied in specific areas such as technology transfer, R&D, education, IT and direct investments.

RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

Foreign and domestic private entities have the right to establish and own business enterprises and engage in all forms of remunerative activity in Slovakia. In theory, competitive equality is the standard by which private enterprises compete with public entities. In addition, businesses are able to contract directly with foreign entities. Private enterprises are free to establish, acquire and dispose of business interests, but all Slovak obligations of liquidated companies must be paid before any remaining funds are transferred out of Slovakia. Non-residents from EU and OECD member countries can acquire real estate for business premises. For a transitional period of seven years starting May 1, 2004, foreign legal entities can buy agricultural and forestry land, as well as land in residential areas only if they establish a legally registered Slovak company. Since January 2004, there are no restrictions for Slovak residents on the purchase, exchange, and sale of real estate abroad.

PROTECTION OF PROPERTY RIGHTS

Secured interests in property and contractual rights are recognized and enforced. The mortgage market in Slovakia is growing, and a reliable system of recording such interests exists. However, titles to real property are often unclear and can take significant amounts of time to determine. Legal decisions may take years, thus limiting the utility of the

system for dispute resolution.

Slovak courts recognize and enforce foreign judgments, subject to the aforementioned delays, and the commercial code is applied consistently. A bankruptcy law adopted in 2006 has improved creditors' rights in bankruptcy cases. The business community considers corruption to be a significant factor in the court system and sometimes goes to extraordinary lengths to avoid litigation in Slovak courts. In spite of the improved property rights legal regime, Slovak courts have issued a number of questionable decisions in this area. Once heavily criticized ruling involved the property rights of citizens whose land was expropriated in order to build a highway.

Protection of intellectual property rights (IPR) falls under the jurisdiction of two agencies. The Industrial Property Office is

responsible for most areas, and the Ministry of Culture is responsible for copyrights (including software). Slovakia is a member of the World Trade Organization (WTO), the European Patent Organization and the World Intellectual Property Organization (WIPO). The WTO TRIPS agreement is legally in force in Slovakia, but there have been no cases brought to test actual enforcement. Slovakia also adheres to other major intellectual property agreements including the Bern Convention for Protection of Literary and Artistic Works, the Paris Convention for Protection of Industrial Property, and numerous other international agreements on design classification, registration of goods, appellations of origin, patents, etc. In general, patents, copyrights, trademarks and service marks, trade secrets, and semiconductor chip design appear adequately protected under Slovak law and practice.

In 2006, Slovakia was taken off the Watch List of the U.S. Trade Representative's annual interagency "Special 301" review in recognition of the significant progress that the GOS had made in addressing concerns related to the protection of pharmaceutical patents in Slovakia. Slovak authorities had adopted legal and administrative measures to ensure that patent-infringing drugs are not given market authorization; some of those measures have since been weakened to accord with current EU norms. The government also built a new secure facility to house confidential pharmaceutical test data.

TRANSPARENCY OF REGULATORY SYSTEM

In general, transparency and predictability have been problematic for many investors. The process of obtaining residency permits for expatriate managers has been criticized for years as difficult and time-consuming. Legislation which came into effect in December 2005 addressed some but not all of the problematic areas. An amendment to the law governing the stay of foreigners, effective from January 2007, introduced EU Directive 562/2006 on "Schengen borders." Investors have long complained that purchasing land and obtaining building permits are time-consuming and unpredictable processes, but improvements, including the web portal www.katasterportal.sk which enables interested parties to verify information about land ownership online, have started to ease the process. Formerly, inconsistencies within the tax system had been a problem, but a major tax reform in 2004 improved this situation. Today, many observers consider Slovakia's flat rate tax system to be one of the simplest in Europe.

The Commercial Code and the 1991 Economic Competition Act govern competition policy in Slovakia. The Anti-Monopoly Office is responsible for preventing noncompetitive situations. The current Law on Public Procurement, valid from 2006, harmonized Slovak law with all relevant EU directives on public procurement. An electronic tendering system, operating by the Public Procurement Office and the Ministry of Finance, was adopted in 2007 to support the tendering cycle. Nevertheless, concern about the transparency and integrity of public tenders is a subject of concern which has led to the recent dismissal of

government ministers and to inquiries on the part of the European Commission.

Foreign investors and foreign companies doing business in Slovakia have complained about the transparency of regulatory processes in several industries, and a number of regulatory bodies are considered by the business community to be less than fully independent. Political pressure on regulators in several offices has resulted in changes of leadership in order to influence the outcome in specific regulatory adjudications.

In recent years, the GOS has used emergency legislative procedures with increasing frequency in cases affecting businesses. This practice has diminished the public comment period for some proposed laws and regulations to practically nothing, a fact that various business groups have vigorously protested. One example of this is the controversial "strategic companies" law introduced in 2009, which effected a major change in bankruptcy and restructuring procedures, allowing the state the right of first refusal in acquiring distressed companies in certain sectors. The law was drafted, introduced, and passed in roughly a week, with no formal period for public comment. Another example, from 2008, changed corporate governance rules for companies in regulated network industries to allow the state to determine utility prices. Again, this highly controversial legislation was brought to a vote in Parliament and signed into law with virtually no public comment period.

EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

After Slovakia joined the OECD, the export of capital and outward direct investment were liberalized to conform to international standards. As of January 2010, the Slovak banking sector was composed of 16 banks (established and with permanent residency in Slovakia) and 10 licensed branches of foreign banks. Citibank is the only U.S. bank in Slovakia. The sector is overwhelmingly foreign-owned. Through November 2009, the assets of all Slovak banks totaled about EUR 53.8 billion.

Slovakia's stock market remains weak and small in an international context. Unless reforms in Slovakia's pension system boost domestic equity trading, the domestic market has very limited prospects. In 2001, the Bratislava Stock Exchange (BSSE) opened a floor for trading foreign securities in order to boost market sentiment, but to date there has been little activity. The BSSE's trading system enables it to organize securities trading in any currency and to structure stock exchanges with few restrictions. When raising capital, Slovak companies usually float shares on the Vienna or Warsaw stock exchanges.

The total number of issues in 2009 on the BSSE was 269, of which 136 were bond issues. Total market capitalization amounted to USD 34 billion, up 19.58 percent from the same period in 2008. The total volume traded in the 2009 was USD 16.41 billion (down 52.14 percent year on year), with 3.1 billion units of securities changing owners in 3,626 transactions. Over 98.9 percent of this trading volume was bond transactions. The stock index, SAX, closed the year 2009 down 25.67 percent from the end of 2008.

POLITICAL VIOLENCE

There have been no reports of politically motivated damage to property, and civil disturbances are extremely rare. There has been no violence directed toward foreign-owned companies.

CORRUPTION

In 1998, at the beginning of its first term, the Dzurinda government proclaimed the fight against corruption to be a

priority. In 2000, the GOS passed a national anti-corruption program. Subsequently, it appointed a corruption steering committee, amended the Criminal Code in attempts to strengthen law enforcement, approved a law modernizing public procurement, and enacted a strong Freedom of Information Act. A special court and a special prosecutor for corruption and organized crime were established in 2003. The Special Court was abolished in 2009 as a result of an action by the Constitutional Court, and in its stead a new Specialized Court, with more limited powers, was established.

The current law on conflict of interest, which is generally viewed as weak and even more weakly enforced, came into force in October 2004. A special committee of Parliament supervises the implementation of the law, but it has not sanctioned any official covered by the law for violation of conflict of interest rules since its inception.

Slovakia is also party to international treaties, among them the OECD Convention on Combating Bribery of Foreign Public Officials, UN Anti-Organized Crime Convention, UN Anti-Corruption Convention, Criminal Law Convention on Corruption and Civil Law Convention on Corruption. Slovakia is a member of the Group of States against Corruption (GRECO).

The press has taken an active role in reporting corruption, and public awareness of the issue has steadily increased over the past several years. The Slovak chapter of Transparency International (TI) is active and, along with other civil society groups, monitors public tenders. Slovakia is a signatory to the OECD Convention on Battling Bribery, and to give or accept bribes is a criminal act. It should be noted, however, that Slovakia is ranked very low in the quality of its implementation of the Convention, according to a TI report. Slovakia also ranked 56th on TI's 2009 Corruption Perception Index (CPI), down (i.e., more corrupt) from 52nd in 2008 and 49th in 2007. The CPI index measures the perceived level of corruption in 180 countries.

Non-governmental organizations and the news media reported a growing number of corruption allegations during the course of 2009, including several allegedly involving senior members of the Slovak government. In 2009, three government ministers were relieved of their posts because of concerns about non-transparent or inflated tenders or because of ethical violations. The European Commission has sought explanations or

investigated corruption in connection with several non-transparent tenders and regulatory decisions.

BILATERAL INVESTMENT AGREEMENTS

Slovakia has bilateral investment treaties with the following countries: Austria, Belgium, Bulgaria, Belarus, Canada, China, Croatia, Cuba, Denmark, Egypt, Finland, France, Germany, Greece, Hungary, Indonesia, Ireland, Israel, Italy, Lithuania, Luxembourg, Malta, Montenegro, the Netherlands, North Korea, Norway, Poland, Portugal, Romania, Russia, Serbia, Singapore, Slovenia, South Korea, Spain, Sweden, Switzerland, Tajikistan, Turkey, Turkmenistan, Ukraine, the United Kingdom, the U.S., the Socialist Republic of Vietnam, and Uzbekistan. Like other new EU members, Slovakia had to negotiate an amendment to its bilateral investment treaty with the U.S., because it was considered inconsistent with EU legislation. The amended treaty entered into force on May 14, 2004. In November 2007, Slovakia signed a bilateral Science and Technology Agreement with the US.

OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

The Overseas Private Investment Corporation (OPIC) offers U.S. investors in Slovakia insurance against political risk, expropriation of assets, damages due to political violence, and currency inconvertibility. OPIC can provide specialized

insurance coverage for certain contracting, exporting, licensing, and leasing transactions undertaken by U.S. investors in Slovakia. Slovakia is a Member of the Multilateral Investment Guarantee Agency (MIGA).

The U.S. Embassy purchases local currency at a rate generated by the Department of State and the current rate (January 13, 2010) is EUR 0.69 / USD 1.00. The Embassy expects to convert roughly USD 9 million during fiscal year 2010. In view of the high volatility of currency markets during the course of 2009, analysts' predictions for 2010 show some consensus for depreciation of the dollar.

LABOR

The government of Robert Fico delivered on its pre-election promises and amended the Labor Code in 2007, providing more protection for employees on the issues of working hours and safety, and strengthening the role of unions. The final compromise legislation did not contain many of the more controversial proposals from the original draft, including limitation of overtime hours, limits on independent contractors, and doubling of sick leave allowances.

Slovakia's workforce of more than two million has a strong tradition in engineering and mechanical production. Literacy in Slovakia is almost universal (more than 99 percent), and most workers are highly educated and technically skilled. Foreign companies frequently praise the motivation and abilities of younger workers, who also often have good foreign language and computer skills. However, older workers often have poor foreign language and managerial skills. Slovaks have a reputation for being technically skilled, particularly in heavy industry. Education levels match or exceed neighboring countries; with nearly 86 percent of Slovaks aged 25-64 having at least a high school education. According to the World Bank's Student Learning Assessment Database, Slovaks outscored all other central and eastern European students in math and placed third (behind Hungary and the Czech Republic) in sciences. Slovaks continue to have good prospects of finding a skilled job, with 85% or more of tertiary educated 25-34 year-olds employed in skilled occupations, indicating that those with higher education are in strong demand (OECD Education at a Glance 2009 report).

Total nominal hourly labor costs in Slovakia rose at an annual rate of 1.9% in the third quarter of 2008, in comparison with 6.4% growth in the Czech Republic, 1.2% in Hungary and 4.4% in Austria, according to the OECD Quarterly Unit Labor Costs 2009. The overall nominal hourly labor costs growth among the EU countries was 3.1%.

The unemployment rate hovered around 20 percent as recently as six years ago, declined to a range between 7-8 percent in 2008 due to strong economic growth, entry to the EU, and stricter policies on qualifying for unemployment benefits, and reached around 12 percent in 2009 (Ministry of Labor est.). There are extensive regional variations in unemployment rates across country, with a pre-recession rate of less than three percent in Bratislava but up to 25 percent in some parts of eastern and southern Slovakia. Government spent approximately EUR 332

million in a package of "anti-crisis measures," with only few having sustainable effect on economic growth. Among the most criticized measures are EU financed "social enterprises," regional private enterprises employing low skilled workers. This measure has been evaluated as highly inefficient and corruption allegations have led to an EU investigation.

After the latest amendments to Labor Code in April 2007, the workweek is standardized at 40 hours, and the overtime allowance was decreased to 100 hours per year, pending an agreement between employers and employees. Despite these recent legislative changes, Slovakia remains one of the most liberal economies in Europe. Since January 2010, the minimum wage is set

to be EUR 319.5 per month, up from EUR 295.5 per month, which was the eighth-lowest minimum wage among the EU member states. Wages have been rising since 2004 following the country's accession to the EU and because of increasing demand for labor brought on by growing levels of FDI. A new law on minimum wage, which took effect at the beginning of 2009, introduced a more regular review of minimum wage, indexed to overall wage growth. Slovak social insurance is compulsory and includes a health allowance, unemployment insurance, and pension insurance. The ceiling on social insurance payments affecting both employers and employees was increased under legislation passed in 2007.

Union membership has been on the decline in recent years. According to the Confederation of Labor Unions, 365,541 workers (or approximately 16.7 percent of the total Slovak workforce) belonged to trade unions as of January 1st, 2009. In 2007 the Fico government re-instituted the so-called "tripartite arrangement," a discussion platform consisting of state representatives, labor unions and the employers' association. The unions generally have been tolerant of the costs imposed on labor by economic transformation, but union leadership has remained politically engaged and is active among its membership. Before parliamentary elections in 2006, the Confederation of Labor Unions signed an agreement on cooperation with Smer, now the government's leading coalition leader, which led to changes to the Labor Code in 2007. Slovakia is a member of the International Labor Organization and adheres to its Convention Protecting Worker Rights.

FOREIGN-TRADE ZONES/FREE TRADE ZONES

Foreign trade zones and free ports were eliminated in Slovakia in 2006.

FOREIGN DIRECT INVESTMENT STATISTICS

FDI cumulatively reached $39.4 billion in 2008; the total inflow of FDI in 2008 was $1.39 billion (National Bank of Slovakia est.).

Germany was Slovakia's largest trading partner, purchasing 20.2% of Slovakia's exports and supplying 19.7% of its imports in ¶2008. Other major partners include the Czech Republic (13% of Slovakia's exports and 11.3% of Slovakia's imports), Italy (5.9% and 3.7%), Russia (3.8% and 10.2%), Austria (5.7% and 2.9%), Hungary (6.2% and 4.9%), Poland (6.6% and 3.9%) and France (6.8% and 4.0%). Slovakia imports more than 90% of its oil and gas from Russia, and its export markets are primarily OECD and EU countries. More than 85.1% of its trade is with EU members and 86.2% is with OECD countries. Slovakia's exports to the United States made up 1.7% of its overall exports in 2008 ($1.21 billion), while imports from the U.S. accounted for 1.2% of its total purchases abroad ($847.24 million).

Major sources of foreign direct investments were Czech Republic (54.2%), Cyprus (20.4%), Poland (4.5%), Austria (4%), France (3.5%), South Korea (3.1%), Germany (3%), Italy (2.6%). Most of the foreign investments were focused in sectors of machinery, industrial production, electrochemical, automotive, financial services, information technology (IT), wholesale and retail trade, transportation and telecommunications.

However, it should be noted that the GOS credits numerous U.S. investments to other countries if the investments came through the investors' foreign subsidiaries. For example, the U.S. Steel investment came in part from its subsidiary in the Netherlands, and therefore the GOS considers it to be a Dutch investment. A 2008 survey conducted by the U.S. Embassy shows U.S. investment in Slovakia at about USD 4 billion in current and future commitments, making the U.S. approximately the third leading foreign investor in Slovakia.

The largest U.S. investor in Slovakia is U.S. Steel, which in 2000 acquired the core assets of the state-owned steel mill in

Kosice. Together with its future commitments, U.S. Steel will have invested more than USD 1.2 billion in Slovakia, and it employs roughly 14,000 people. Last year, US Steel Kosice used government sponsored anti-crisis measures and worked 4-day shifts, receiving government subsidies to offset the expense of social contributions. Whirlpool has invested over USD 100 million in Slovakia, employs more than 1,200 people and produces 2 million washing machines annually, making its local unit the largest appliance producer in Europe. Several other American companies have substantial investments in Slovakia, such as Emerson Electric, Tower Automotive, Delphi, Johnson Controls, Lear, Citibank, IBM, TRW, Visteon, AT&T, and Dell. The U.S. Commercial Service reports that there are over 120 U.S. companies present in Slovakia. Other large foreign investors in Slovakia include Volkswagen, Hyundai Kia, Peugeot Citroen, Samsung, Getrag Ford, Deutsche Telecom, EON, Ruhrgas, Intesa BCI, UniCredito, Raiffeisen Group, Enel and Siemens.

WEB RESOURCES

National Bank of Slovakia - www.nbs.sk
Center for Economic and Social Analyses - www.mesa10.sk
Ministry of Economy of Slovak Republic - www.economy.gov.sk
Ing. Slovakia - www.ingfn.sk
The Slovak Republic Government Office - www.government.gov.sk
Ministry of Finance of Slovak Republic - www.finance.gov.sk
OECD - www.oecd.org
International Monetary Fund - www.imf.org
EDDINS